

**PATON-CHURDAN  
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2008

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**PATON-CHURDAN COMMUNITY SCHOOL DISTRICT**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education**

**(Before September, 2007 Election)**

Steve Burrell	President	2008
Jason Stauffer	Vice President	2007
Troy Paup		2008
David Dumdei		2009
Greg Carey		2009

**(After September, 2007 Election)**

Steve Burrell	President	2008
Jason Stauffer	Vice President	2009
Troy Paup		2008
David Dumdei		2009
Greg Carey		2009

**School Officials**

Jess Toliver	Superintendent
Jina Brincks	District Secretary/ Treasurer

# BRUCE D. FRINK

Certified Public Accountant

## Independent Auditor's Report

### Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

### Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

### Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of  
Paton-Churdan Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Paton-Churdan Community School District, Churdan, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

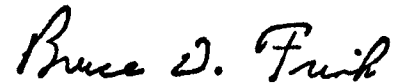
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Paton-Churdan Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 25, 2009 on our consideration of Paton-Churdan Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Paton-Churdan Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Bruce D. Frink".

**BRUCE D. FRINK**  
**Certified Public Accountant**

March 25, 2009

## **PATON-CHURDAN COMMUNITY SCHOOL DISTRICT**

### **Management's Discussion and Analysis**

Paton-Churdan Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

#### **2008 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$1,945,777 in fiscal year 2007 to \$2,074,917 in fiscal year 2008, while General Fund expenditures increased from \$1,875,008 in fiscal year 2007 to \$1,927,581 in fiscal year 2008.
- General Fund revenues increased 7% during the year ending June 30, 2008. The increase in expenditures was due primarily to normal annual payroll increases. Current allowable growth levels are inadequate for continued growth in the General Fund.
- The District collected over \$127,000 in local option sales tax revenues. This was used for expenditures previously paid with Physical Plant and Equipment property tax levies as well as infrastructure costs.
- The General Fund increased over \$147,000 from savings due to sharing programs and careful monitoring of discretionary spending as well as increased revenues.
- The District began a geothermal heating/cooling project. This should save the District significant dollars in heating and cooling costs.

#### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Paton-Churdan Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Paton-Churdan Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Paton-Churdan Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**

***Paton-Churdan Community School District Annual Financial Report***

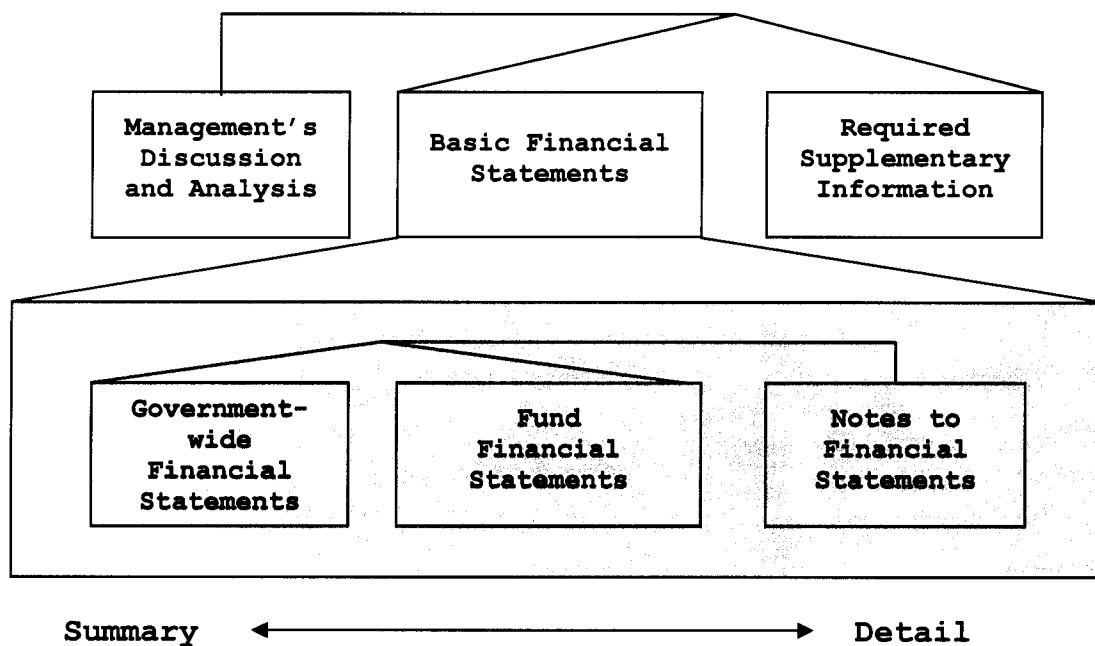


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b>			
<b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>. Statement of net assets</li> <li>. Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>. Balance sheet</li> <li>. Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>. Statement of net assets</li> <li>. Statement of revenues, expenses and changes in fund net assets</li> <li>. Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long- term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid



## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a Statement of Net Assets, a Statement of Revenues, Expenses, Changes in Net Assets and a Statement of Cash Flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2008 compared to June 30, 2007.

<b>Figure A-3</b> <b>Condensed Statement of Net Assets</b> <b>(Expressed in Thousands)</b>							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current assets	\$ 2,752	1,502	23	12	2,775	1,514	83.29%
Capital assets	659	413	7	8	666	421	58.19%
Total assets	3,411	1,915	30	20	3,441	1,935	77.83%
Current liabilities	1,098	914	-	-	1,098	914	20.13%
Non-current liabilities	1,095	8	-	-	1,095	8	13587.50%
Total liabilities	2,193	922	-	-	2,193	922	137.85%
Net Assets							
Invested in capital assets, net of related debt	184	408	7	8	191	416	-54.09%
Restricted	528	111	-	-	528	111	375.68%
Unrestricted	506	474	23	12	529	486	8.85%
Total net assets	\$ 1,218	993	30	20	1,248	1,013	23.20%

Total net assets increased over 23% in fiscal year 2008. Two primary factors were a \$140,000 increase in the General Fund and the collection of over \$130,000 in local option sales taxes. The General Fund continues to grow due to cost savings from sharing classes with Jefferson-Scranton Community School District as well as continued monitoring of discretionary spending. The District is using local option sales taxes to ease the property tax burden of the PPEL levy as well as for infrastructure projects.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to the year ended June 30, 2007.

**Figure A-4**  
**Changes in Net Assets**  
**(Expressed in Thousands)**

	Governmental Activities		Business type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for service and sales	\$ 89	68	27	28	116	96	20.83%
Operating grants, contributions and restricted interest	355	350	38	43	393	393	0.00%
General revenues:							
Property tax	832	825	-	-	832	825	0.85%
Income surtax	78	63	-	-	78	63	23.81%
Local option sales tax	127	133	-	-	127	133	-4.51%
Unrestricted state grants	809	779	-	-	809	779	3.85%
Unrestricted investment earnings	16	11	-	-	16	11	45.45%
Other	7	6	-	-	7	6	16.67%
Total revenues	<u>2,313</u>	<u>2,235</u>	<u>65</u>	<u>71</u>	<u>2,378</u>	<u>2,306</u>	<u>3.12%</u>
Program expenses:							
Governmental activities:							
Instruction	1,356	1,322	-	-	1,356	1,322	2.57%
Support Services	599	586	-	-	599	586	2.22%
Non-instructional programs	-	-	60	65	60	65	-7.69%
Other expenses	133	134	-	-	133	134	-0.75%
Total expenses	<u>2,088</u>	<u>2,042</u>	<u>60</u>	<u>65</u>	<u>2,148</u>	<u>2,107</u>	<u>1.95%</u>
Change in net assets	<u>\$ 225</u>	<u>193</u>	<u>5</u>	<u>6</u>	<u>230</u>	<u>199</u>	<u>15.58%</u>

Property tax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 91% of the total expenses.

## Governmental Activities

Revenues for governmental activities were \$2,313,159 and expenses were \$2,087,879.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses, for the year ended June 30, 2008 compared to the year ended June 30, 2007.

<b>Figure A-5</b> <b>Total and Net Cost of Governmental Activities</b> <b>(Expressed in Thousands)</b>						
Total Cost of Services			Net Cost of Services			
2008	2007	Change 2007-08	2008	2007	Change 2007-08	
Instruction	\$ 1,356	1,322	2.57%	994	998	-0.40%
Support Services	599	586	2.22%	596	805	-25.96%
Other expenses	133	134	-0.75%	54	24	125.00%
Totals	<u>\$ 2,088</u>	<u>2,042</u>	<u>2.25%</u>	<u>1,644</u>	<u>1,827</u>	<u>-10.02%</u>

- The cost financed by users of the District's programs was \$89,424.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$218,217.
- The net cost of governmental activities was financed with \$831,529 in property tax, \$809,084 in state foundation aid, and \$16,382 in interest income.

## Business Type Activities

Revenues of the District's business type activities were \$65,463 and expenses were \$60,358. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted Paton-Churdan Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,604,323, a 301 percent increase over last year's ending fund balances of \$532,653. The primary reason was the Capital Project and PPEL funds having unspent funds from issuance of long-term debt. Fiscal year 2009 will show a corresponding drop as these funds are spent.

## Governmental Fund Highlights

- The District maintained its General Fund balance by continuing a program whereby Paton-Churdan high school students attend Jefferson-Scranton Community School District for a portion of each day.
- With the available PPEL and Capital Projects dollars the District was able to do a number of repair and remodeling projects to maintain the District's facilities. A project to install geothermal heating and cooling was begun. \$1,095,000 in revenue bonds and capital loan notes were issued.

## Proprietary Fund Highlights

The Nutrition Fund balance grew due to cost containment measures.

## BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 31 and 32.

### Legal Budgetary Highlights

The District's receipts were \$31,247 greater than budgeted receipts, a variance of 1%. The most significant variance resulted from the District receiving less in federal aid than originally anticipated.

Total expenditures were less than budgeted. This was due in part to ongoing cost containment measures. Expenditures did exceed the budget in the other expenditures function as more costs of the geothermal project were incurred in fiscal year 2008 than anticipated. However, this is not indicative of a cost overrun, but is just a timing matter of when the work was completed.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2008, the District had invested over \$666,000, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 58% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$49,868.

**Figure A-6**  
**Condensed Statement of Net Assets**  
**(Expressed in Thousands)**

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 5	5	-	-	5	5	0.00%
Buildings	286	288	-	-	286	288	-0.69%
Furniture and equipment	95	120	7	9	102	129	-20.93%
Construction in progress	273	-	-	-	273	-	100.00%
Totals	<u>\$ 659</u>	<u>413</u>	<u>7</u>	<u>9</u>	<u>666</u>	<u>422</u>	<u>57.82%</u>

## **Long-Term Debt**

During fiscal year 2008, the District issued \$620,000 of revenue bonds and \$475,000 of capital loan notes for the installation of geothermal heating and cooling as well as some remodeling. The revenue bonds will be repaid with proceeds of the one cent sales tax. The capital loan notes will be repaid from the Physical Plant and Equipment levy approved by the voters of the District.

The technology loan and early retirement obligations were fully retired during fiscal year 2008.

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The sharing of programs and related cost savings along with allowable growth set by the state legislature will have a major effect on the District.
- Allowable growth of 4% or less is inadequate to maintain all of the District's educational programs at their current level.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired).
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jina Brincks, District Secretary, Paton-Churdan Community School District, 606 Adrian Street, Churdan, Iowa 50050.

## **Basic Financial Statements**

## PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2008

	Governmental Activities	Business Type Activities School Nutrition	Total
<b>Assets</b>			
Cash and pooled investments	\$ 1,674,102	22,909	1,697,011
Receivables:			
Property tax:			
Current year	11,165	-	11,165
Succeeding year	937,188	-	937,188
Income surtax - succeeding year	58,000	-	58,000
Due from other governments	70,905	-	70,905
Other receivables	380	-	380
Inventories	-	582	582
Capital assets, net of accumulated depreciation	659,418	6,768	666,186
<b>Total assets</b>	<u>3,411,158</u>	<u>30,259</u>	<u>3,441,417</u>
<b>Liabilities</b>			
Accounts payable	41,042	-	41,042
Accrued payroll and benefits	102,357	-	102,357
Retainage payable	8,830	-	8,830
Accrued interest payable	8,942	-	8,942
Deferred revenue:			
Succeeding year property tax	937,188	-	937,188
Long-term liabilities:			
Portion due within one year:			
Capital loan notes	40,000	-	40,000
Revenue bonds	35,000	-	35,000
Portion due after one year:			
Capital loan notes	435,000	-	435,000
Revenue bonds	585,000	-	585,000
<b>Total liabilities</b>	<u>2,193,359</u>	<u>-</u>	<u>2,193,359</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	184,418	6,768	191,186
Restricted for:			
Capital projects	226,453	-	226,453
Management levy	1,873	-	1,873
Physical plant and equipment levy	285,048	-	285,048
Debt service	14,536	-	
Unrestricted	505,471	23,491	528,962
<b>Total net assets</b>	<u>\$ 1,217,799</u>	<u>30,259</u>	<u>1,233,522</u>

See notes to financial statements.



## PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:	\$ 1,356,258	89,424	272,942	(993,892)	-	(993,892)
Support services:						
Student services	10,364	-	-	(10,364)	-	(10,364)
Instructional staff services	27,461	-	-	(27,461)	-	(27,461)
Administration services	276,737	-	285	(276,452)	-	(276,452)
Operation and maintenance of plant services	180,209	-	2,490	(177,719)	-	(177,719)
Transportation services	104,391	-	-	(104,391)	-	(104,391)
	599,162	-	2,775	(596,387)	-	(596,387)
Other expenditures:						
AEA flowthrough	75,248	-	75,248	-	-	-
Facilities acquisition and construction	502	-	3,559	3,057	-	3,057
Interest on debt service	8,942	-	-	(8,942)	-	(8,942)
Depreciation (unallocated)*	47,767	-	-	(47,767)	-	(47,767)
	132,459	-	78,807	(53,652)	-	(53,652)
Total governmental activities	2,087,879	89,424	354,524	(1,643,931)	-	(1,643,931)

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2008

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Total
Business type activities:				
Non-instructional programs:				
Nutrition services	60,358	26,849	38,614	5,105
Total	<u>\$ 2,148,237</u>	<u>116,273</u>	<u>393,138</u>	<u>(1,638,826)</u>
General Revenues:				
Property tax levied for:				
General purposes			\$ 773,753	773,753
Management			34,933	34,933
Capital outlay			22,843	22,843
Income surtax			78,081	78,081
School infrastructure local option sales tax			127,305	127,305
Unrestricted state grants			809,084	809,084
Unrestricted investment earnings			16,382	16,382
Other			6,830	6,830
Total general revenues			<u>1,869,211</u>	<u>1,869,211</u>
Change in net assets			225,280	230,385
Net assets beginning of year			<u>992,519</u>	<u>1,017,673</u>
Net assets end of year			<u>\$ 1,217,799</u>	<u>1,248,058</u>

\* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

## PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2008

	General	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
<b>Assets</b>						
Cash and pooled investments	\$ 617,567	334,200	647,023	14,536	60,776	1,674,102
Receivables:						
Property tax:						
Current year	10,388	307	-	-	470	11,165
Succeeding year	824,328	92,860	-	-	20,000	937,188
Income surtax - succeeding year	58,000	-	-	-	-	58,000
Due from other governments	21,475	-	49,430	-	-	70,905
Other receivables	380	-	-	-	-	380
<b>Total assets</b>	<u>\$ 1,532,138</u>	<u>427,367</u>	<u>696,453</u>	<u>14,536</u>	<u>81,246</u>	<u>2,751,740</u>
<b>Liabilities and Fund Balance</b>						
Liabilities:						
Accounts payable	\$ 413	40,629	-	-	-	41,042
Accrued payroll and benefits	102,357	-	-	-	-	102,357
Retainage payable	-	8,830	-	-	-	8,830
Deferred revenue:						
Succeeding year property tax	824,328	92,860	-	-	20,000	937,188
Succeeding year income surtax	58,000	-	-	-	-	58,000
Total liabilities	<u>985,098</u>	<u>142,319</u>	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>1,147,417</u>
Fund balances:						
Reserved for capital projects	-	-	696,453	-	-	696,453
Reserved for debt service	-	-	-	14,536	-	14,536
Unreserved	547,040	285,048	-	-	61,246	893,334
Total fund balance	<u>547,040</u>	<u>285,048</u>	<u>696,453</u>	<u>14,536</u>	<u>61,246</u>	<u>1,604,323</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,532,138</u>	<u>427,367</u>	<u>696,453</u>	<u>14,536</u>	<u>81,246</u>	<u>2,751,740</u>

See notes to financial statements.

## PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2008

<b>Total fund balances of governmental funds (Exhibit C)</b>	\$ 1,604,323
<b>Amounts reported for governmental activities in the Statement of Net Assets are different because:</b>	
Income surtax receivable at June 30, 2008 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	58,000
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	659,418
Accrued interest payable on long-term liabilities is not due and payable in the current period and , therefore, is not reported as a liability in the governmental funds.	(8,942)
Long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.	
Capital loan notes	(475,000)
Revenue bonds	(620,000)
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>\$ 1,217,799</u></u>

See notes to financial statements.

## PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Fund Types

Year ended June 30, 2008

	General	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
Revenues:						
Local sources:						
Local tax	\$ 849,346	22,843	127,305	-	34,933	1,034,427
Tuition	89,424	-	-	-	-	89,424
Other	33,636	2,475	3,559	-	44,601	84,271
State sources	1,040,510	15	-	-	23	1,040,548
Federal sources	62,001	-	-	-	-	62,001
Total revenues	2,074,917	25,333	130,864	-	79,557	2,310,671
Expenditures:						
Current:						
Instruction:	1,310,443	-	-	-	49,115	1,359,558
Support services:						
Student services	10,364	-	-	-	-	10,364
Instructional staff services	27,461	-	-	-	-	27,461
Administration services	249,839	-	-	-	26,898	276,737
Operation and maintenance of plant services	149,835	26,513	25,629	-	-	201,977
Transportation services	104,391	-	-	-	-	104,391
	541,890	26,513	25,629	-	26,898	620,930

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Fund Types

Year ended June 30, 2008

	General	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
Other expenditures:						
AEA flowthrough	75,248	-	-	-	-	75,248
Facilities acquisition and construction	-	211,683	61,427	-	-	273,110
Long-term debt:						
Principal	-	-	-	5,155	-	5,155
	<u>75,248</u>	<u>211,683</u>	<u>61,427</u>	<u>5,155</u>	<u>-</u>	<u>353,513</u>
Total expenditures	<u>1,927,581</u>	<u>238,196</u>	<u>87,056</u>	<u>5,155</u>	<u>76,013</u>	<u>2,334,001</u>
Excess (deficiency) of revenues over (under) expenditures	<u>147,336</u>	<u>(212,863)</u>	<u>43,808</u>	<u>(5,155)</u>	<u>3,544</u>	<u>(23,330)</u>
Other financing sources (uses):						
Proceeds of capital loan notes	-	475,000	-	-	-	475,000
Proceeds of revenue bonds	-	-	620,000	-	-	620,000
Operating transfers in	-	-	-	19,691	-	19,691
Operating transfers out	-	(5,155)	(14,536)	-	-	(19,691)
	<u>-</u>	<u>469,845</u>	<u>605,464</u>	<u>19,691</u>	<u>-</u>	<u>1,095,000</u>
Excess (deficiency) of revenues and other financing sources over (over) expenditures and other financial uses	<u>147,336</u>	<u>256,982</u>	<u>649,272</u>	<u>14,536</u>	<u>3,544</u>	<u>1,071,670</u>
Fund balances beginning of year	<u>399,704</u>	<u>28,066</u>	<u>47,181</u>	<u>-</u>	<u>57,702</u>	<u>532,653</u>
Fund balances end of year	<u>\$ 547,040</u>	<u>285,048</u>	<u>696,453</u>	<u>14,536</u>	<u>61,246</u>	<u>1,604,323</u>

See notes to financial statements.

## PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities

Year ended June 30, 2008

Net change in fund balances - total governmental funds (Exhibit E)	\$ 1,071,670
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**Amounts reported for governmental activities in the State of  
Activities are different because:**

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities	2,488
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Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 294,376	
Depreciation expense	<u>(47,767)</u>	246,609

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(1,095,000)	
Repaid	<u>5,155</u>	(1,089,845)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	(8,942)
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Early retirement costs are not shown as expenditures in the governmental funds, however are shown as liabilities in the Statement of Assets.	<u>3,300</u>
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Change in net assets of governmental activities (Exhibit B)	<u>\$ 225,280</u>
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See notes to financial statements.

## PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Fund

Year ended June 30, 2008

	<u>School Nutrition</u>
Operating revenue:	
Local sources:	
Charges for services	\$ 26,849
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	19,156
Benefits	1,206
Services	112
Supplies	37,783
Depreciation	<u>2,101</u>
Total operating expenses	<u>60,358</u>
Operating (loss)	<u>(33,509)</u>
Non-operating revenues:	
State sources	823
Federal sources	37,622
Interest income	<u>169</u>
	<u>38,614</u>
Changes in net assets	5,105
Net assets beginning of year	<u>25,154</u>
Net assets end of year	<u>\$ 30,259</u>

See notes to financial statements.



## PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2008

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 26,849
Cash payments to employees for services	(20,362)
Cash payments to suppliers for goods or services	<u>(33,723)</u>
Net cash (used in) operating activities	<u>(27,236)</u>
Cash flows from non-capital financing activities:	
State grants received	823
Federal grants received	<u>33,413</u>
Net cash provided by non-capital financing activities	<u>34,236</u>
Cash flows from investing activities:	
Interest on investments	<u>169</u>
Net increase in cash and cash equivalents	7,169
Cash and cash equivalents beginning of year	<u>15,740</u>
Cash and cash equivalents end of year	<u><u>\$ 22,909</u></u>
<b>Reconciliation of operating income (loss) to net cash in operating activities:</b>	
Operating (loss)	\$ (33,509)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	2,101
Commodities used	4,209
(Increase) in inventory	<u>(37)</u>
	<u><u>\$ (27,236)</u></u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2008, the District received federal commodities valued at \$4,209.

**PATON-CHURDAN COMMUNITY SCHOOL DISTRICT**

**Notes to Financial Statements**

**June 30, 2008**

**(1) Summary of Significant Accounting Policies**

Paton-Churdan Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Paton and Churdan, Iowa, and agricultural area in Greene County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Paton-Churdan Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Paton-Churdan Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Greene County Assessor's Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets*, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary fund, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Physical Plant and Equipment Levy is used for the acquisition of capital assets (over \$500) and the maintenance and purchase of land improvements and facilities.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

#### C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Balance

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year become effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2007.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year-end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2008.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures in the other expenditures function exceeded the amount budgeted.

## (2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2008.

## (3) Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 5,000	-	-	5,000
Capital assets being depreciated:				
Buildings	824,226	12,341	-	836,567
Furniture and Equipment	296,022	9,427	-	305,449
Construction in progress	-	272,608	-	272,608
Total capital assets being depreciated	1,120,248	294,376	-	1,414,624
Less accumulated depreciation for:				
Buildings	536,120	13,600	-	549,720
Furniture and Equipment	176,319	34,167	-	210,486
Total accumulated depreciation	712,439	47,767	-	760,206
Total capital assets being depreciated, net	407,809	246,609	-	654,418
Governmental activities, capital assets, net	\$ 412,809	246,609	-	659,418
<b>Business type activities:</b>				
Furniture and equipment	\$ 22,239	0	-	22,239
Less accumulated depreciation	13,370	2,101	-	15,471
Business type activities capital assets, net	\$ 8,869	(2,101)	-	6,768
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				\$ 47,767
Business Type activities:				
Food service operations				\$ 2,101

**(4) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual payroll, for the year ended June 30, 2008. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$61,225, \$44,646, and \$52,791 respectively, equal to the required contributions for each year.

**(5) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$75,248 for year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(6) Changes in Long-Term Debt**

A summary of changes in long-term debt for the year ended June 30, 2008 is as follows:

	Technology Loan	Revenue Bonds	Early Retirement	Capital Loan Notes	Total
Balance beginning of year	\$5,155	-	3,300	-	8,455
Additions	-	620,000	-	475,000	1,095,000
Reductions	<u>5,155</u>	<u>-</u>	<u>3,300</u>	<u>-</u>	<u>8,455</u>
Balance end of year	<u>\$ -</u>	<u>620,000</u>	<u>-</u>	<u>475,000</u>	<u>1,095,000</u>

**(7) Technology Loan**

The District received an interest free loan in 2004 in the amount of \$25,785 for the addition of communications network equipment into an existing classroom. The note was fully repaid in fiscal year 2008 from the District's Physical Plant and Equipment Levy.

**(8) Revenue Bonds Payable**

Details of the District's June 30, 2008 revenue bond indebtedness are as follows:

Year Ending June 30,	Bond Issue of September 1, 2007			
	Rates	Interest	Principal	Total
2009	4.88%	\$ 37,736	35,000	72,736
2010	4.88	28,548	40,000	88,548
2011	4.88	26,596	40,000	66,596
2012	4.88	24,644	45,000	69,644
2013	4.88	22,448	45,000	67,448
2014	4.88	20,252	50,000	70,252
2015	4.88	17,812	40,000	57,812
2016	4.88	15,860	40,000	55,860
2017	4.88	13,908	40,000	53,908
2018	4.88	11,956	45,000	56,956
2019	4.88	9,760	45,000	54,760
2020	4.88	7,564	50,000	57,564
2021	4.88	5,124	50,000	55,124
2022	4.88	<u>2,685</u>	<u>55,000</u>	<u>57,684</u>
Total		<u>\$244,892</u>	<u>620,000</u>	<u>864,892</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- b) Any monies remaining in the Revenue Account after the required payments are made may be used for any lawful purpose.

**(9) Commitments**

Revenue bonds of \$620,000 and capital loan notes of \$475,000 were issued during the past year. The following amounts are as of June 30, 2008.

Contract amount	\$1,195,045
Completed to date	176,590
Retainage	8,830
Current payable	40,629
Paid to date	127,132
To be completed	1,018,455



**(10) Capital Loan Notes**

In September, 2007 the District issued \$475,000 of Capital Loan Notes to be used for energy management projects throughout the District. Payments will be made from the Physical Plant and Equipment Levy.

Details of the Capital Loan Notes are as follows:

Year Ending June 30,	Capital Loan Notes of September 1, 2007			
	Rates	Interest	Principal	Total
2009	3.50%	\$ 19,612	40,000	59,612
2010	3.50	16,750	40,000	56,750
2011	3.60	15,350	45,000	60,350
2012	3.75	13,730	45,000	58,730
2013	3.75	12,042	45,000	57,042
2014	3.90	10,356	50,000	60,356
2015	3.90	8,405	50,000	58,405
2016	4.00	6,455	50,000	56,455
2017	4.00	4,455	55,000	59,455
2018	4.10	2,255	55,000	57,255
Total		<u>\$109,410</u>	<u>475,000</u>	<u>584,410</u>

**(10) Risk Management**

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(11) Interfund Transfers**

The detail of Interfund transfers for the year ending June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Physical Plant and Equipment Levy	<u>\$5,155</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

## **Required Supplementary Information**

**PATON-CHURDAN COMMUNITY SCHOOL DISTRICT**

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2008

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
<b>Revenues:</b>						
Local sources	\$ 1,208,122	27,018	1,235,140	1,191,700	1,191,700	43,440
State sources	1,040,548	823	1,041,371	1,008,187	1,008,187	33,184
Federal sources	62,001	37,622	99,623	145,000	145,000	(45,377)
Total revenues	<u>2,310,671</u>	<u>65,463</u>	<u>2,376,134</u>	<u>2,344,887</u>	<u>2,344,887</u>	<u>31,247</u>
<b>Expenditures:</b>						
Instruction	1,359,558	-	1,359,558	1,761,964	1,611,964	252,406
Support services	620,930	-	620,930	732,246	882,246	261,316
Non-instructional programs	-	60,358	60,358	191,972	91,972	31,614
Other expenditures	353,513	-	353,513	80,246	180,246	(173,267)
Total expenditures	<u>2,334,001</u>	<u>60,358</u>	<u>2,394,359</u>	<u>2,766,428</u>	<u>2,766,428</u>	<u>372,069</u>
Excess (deficiency) of revenues over (under) expenditures	(23,330)	5,105	(18,225)	(421,541)	(421,541)	403,316
Other financing sources (uses)	<u>1,095,000</u>	<u>-</u>	<u>1,095,000</u>	<u>(2,579)</u>	<u>(2,579)</u>	<u>1,097,579</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	1,071,670	5,105	1,076,775	(424,120)	(424,120)	1,500,895
Balance beginning of year	<u>532,653</u>	<u>25,154</u>	<u>557,807</u>	<u>428,369</u>	<u>428,369</u>	<u>129,438</u>
Balance end of year	<u>\$ 1,604,323</u>	<u>30,259</u>	<u>1,634,582</u>	<u>4,249</u>	<u>4,249</u>	<u>1,630,333</u>

See accompanying independent auditor's report.

**PATON-CHURDAN COMMUNITY SCHOOL DISTRICT**

**Notes to Required Supplementary Information - Budgetary Reporting**

Year ended June 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The budget was amended during April, 2008. No additional expenses were budgeted; however, amounts were shifted between functions.

During the year ended June 30, 2008, expenditures exceeded the amount budgeted in the other expenditures function. The District did not exceed the General Fund unspent authorized budget.

## **Other Supplementary Information**

## PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Special Revenue Funds

June 30, 2008

	Management Levy	Student Activity	Total
<b>Assets</b>			
Cash	\$ 41,403	19,373	60,776
Property tax receivable:			
Current year	470	-	470
Succeeding year	<u>20,000</u>	<u>-</u>	<u>20,000</u>
<b>Total assets</b>	<u>\$ 61,873</u>	<u>19,373</u>	<u>81,246</u>
<b>Liabilities and Fund Balance</b>			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	<u>\$ 20,000</u>	<u>-</u>	<u>20,000</u>
	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Fund balance:			
Unreserved fund balance	<u>41,873</u>	<u>19,373</u>	<u>61,246</u>
	<u>41,873</u>	<u>19,373</u>	<u>61,246</u>
<b>Total liabilities and fund balances</b>	<u>\$ 61,873</u>	<u>19,373</u>	<u>81,246</u>

See accompanying independent auditor's report.

## PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Special Revenue Funds

Year ended June 30, 2008

	Management Levy	Student Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 34,933	-	34,933
Other	262	44,339	44,601
State sources	23	-	23
Total revenues	<u>35,218</u>	<u>44,339</u>	<u>79,557</u>
Expenditures:			
Instruction:	4,915	44,200	49,115
Support services:			
Administration services	<u>26,898</u>	<u>-</u>	<u>26,898</u>
Total expenditures	<u>31,813</u>	<u>44,200</u>	<u>76,013</u>
Excess (deficiency) of revenues over (under) expenditures	3,405	139	3,544
Fund balances beginning of year	<u>38,468</u>	<u>19,234</u>	<u>57,702</u>
Balance end of year	<u>\$ 41,873</u>	<u>19,373</u>	<u>61,246</u>

See accompanying independent auditor's report.

## PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2008

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Athletics	\$ 4,715	12,823	13,022	4,516
Resale	290	-	-	290
Music Resale	-	116	359	(243)
Class of 2011	-	1,087	213	874
Class of 2010	1,255	519	24	1,750
Class of 2009	1,687	3,646	3,007	2,326
Class of 2008	1,921	2,166	3,395	692
Class of 2007	270	-	270	-
Class of 2006	335	-	335	-
Miscellaneous	115	628	-	743
Speech/Drama	394	-	20	374
Musical	559	735	1,151	143
Student Council	157	1,162	740	579
Annual	(828)	740	3,216	(3,304)
Elementary	6,046	9,237	8,985	6,298
Miscellaneous Clearing	(1,416)	3,832	2,416	-
Student Pop Machine	2,551	6,406	6,093	2,864
Cheerleaders	434	502	413	523
Other Activities	210	600	100	710
National Honor Society	539	140	441	238
Total	\$ 19,234	44,339	44,200	19,373

See accompanying independent auditor's report.



## PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds

For the Last Five Years

	Modified Accrual Basis				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 1,034,427	1,021,032	1,027,895	960,813	1,033,655
Tuition	89,424	68,199	78,860	22,043	33,343
Other	84,271	84,650	95,769	131,394	200,580
State sources	1,040,548	993,080	921,121	881,704	691,218
Federal sources	62,001	68,460	131,633	112,346	72,884
Total	<u>\$ 2,310,671</u>	<u>2,235,421</u>	<u>2,255,278</u>	<u>2,108,300</u>	<u>2,031,680</u>
Expenditures:					
Instruction	\$ 1,359,558	1,326,015	1,372,508	1,368,998	1,217,499
Support services:					
Student services	10,364	9,748	9,717	1,074	7,594
Instructional staff	27,461	33,992	29,576	38,317	24,791
Administration	276,737	246,245	250,404	219,657	217,136
Operation and maintenance of plant	201,977	229,493	279,480	142,543	194,447
Transportation	104,391	160,031	215,464	63,274	149,910
Non-instructional programs					
Food service operations	-	-	-	-	4,960
Other expenditures:					
Facilities acquisition	273,110	51,309	-	133,418	-
Debt service:					
Principal	5,155	2,579	2,579	2,579	2,579
AEA flowthrough	75,248	72,878	69,832	65,908	64,310
Total	<u>\$ 2,334,001</u>	<u>2,132,290</u>	<u>2,229,560</u>	<u>2,035,768</u>	<u>1,883,226</u>

See accompanying independent auditor's report.

**BRUCE D. FRINK**  
Certified Public Accountant

**Independent Auditor's Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

**Member:**

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

**Services:**

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
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**Plus:**

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of the  
Paton-Churdan Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Paton-Churdan Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 25, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Paton-Churdan Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Paton-Churdan Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Paton-Churdan Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency as well as a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Paton-Churdan Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Paton-Churdan Community School District's financial statements that is more than inconsequential will not be prevented or detected by Paton-Churdan Community School District's internal control. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Paton-Churdan Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above, item 08-I-A, is a material weakness.

#### Compliance and Other Matters

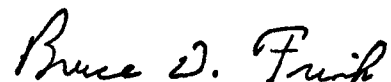
As part of obtaining reasonable assurance about whether Paton-Churdan Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Paton-Churdan Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Paton-Churdan Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Paton-Churdan Community School District and other parties to whom Paton-Churdan Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Paton-Churdan Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



**BRUCE D. FRINK**  
**Certified Public Accountant**

March 25, 2009

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2008

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**SIGNIFICANT DEFICIENCIES::**

08-I-A      Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

**Part II: Other Findings Related to Required Statutory Reporting:**

08-II-A      Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2008.

08-II-B      Certified Budget - Expenditures for the year ended June 30, 2008, exceeded the certified budget amounts in the other expenditures function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

08-II-C      Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

08-II-D      Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

08-II-E      Business Transactions - No business transactions between the District and District officials or employees were noted.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2008

**Part II: Other Findings Related to Required Statutory Reporting:**  
**(continued)**

- 08-II-F      Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 08-II-G      Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 08-II-H      Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 08-II-I      Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.
- 08-II-J      Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.